Looming Meltdown in Massachusetts Health Care Demands Action

Alan Sager, Ph.D. and Deborah Socolar, MPH
Directors, Health Reform Program, Boston University School of Public Health
(617) 638-5042 – asager@bu.edu, dsocolar@bu.edu – web: www.healthreformprogram.org

4 October 2003

LOOMING MEDICAL MELTDOWN

Costs rise, coverage falls, caregivers struggle—yet each party thinks mainly of its own needs.

Costs are high and rising rapidly.

- Health care spending in Massachusetts rose by nearly half in six years, and nearly a third in just four years, to about $47.6 billion this year. At $7,500, spending per person is 30 % above the U.S. average. We'd save $11-12 billion this year if we spent at the U.S. rate.
- Health insurance premiums are soaring even faster. Annual family premiums for a major eastern Massachusetts employer rose by *over half in just 3 years*, to $9,759 in 2003.
- Health care's share of personal income in this state reached 17.8 percent in 2002—the highest in at least a decade—yet is *climbing still further, to 18.7 percent* this year, we find.
- Why are health costs so high here? Among the reasons: the nation's heaviest reliance on teaching hospitals, the nation's highest doctor-to-population ratio, and a tradition of relatively elaborate care. *Massachusetts costs now are high in virtually every sector of health care*.

Coverage is shrinking.

- New federal data show that in 2001-2, *9.1 percent of Massachusetts residents lacked health insurance*—almost 600,000 people. And under-insurance is a huge and growing problem. Many people have weak or no coverage for drugs, long-term care, mental health, and more.

Caregivers face crises.

- Over 25 percent of Massachusetts hospitals have closed since 1990. Just 72 survive—and at least a dozen more may close by 2010. Many other beds were cut. The state is losing needed nursing homes as well.
- *Hospitals that are more efficient are likelier to close*, we find. So are those in lower-income cities and towns, forcing more patients to travel farther for care in costly teaching hospitals.
- Huge bed shortages loom. But *re-building hospitals is approaching $1 million per bed*.
- This state has the nation's second highest RN/population ratio, but too few nurses willing to work in acute hospitals. Massachusetts leads the U.S. in patient-care MDs/1000 people. Perhaps as a result, physicians often complain of making less here than in other states.

CAUSES

Each group seeks more money (or, for payers, less money) for business as usual.

- Hospitals, doctors, nursing homes, and drug makers all seek more money. Government is unwilling or unable to find more money. *Each party thinks mainly of its own needs.*
- Employers decry higher premiums—but, when managed care, competition, and wellness all failed, they gave up on cost control, simply shifting more costs to employees and patients.

Yet higher spending is not necessary or desirable.

- Higher health spending would raise the cost of doing business, making Massachusetts less competitive, and would mean less money for everything else we all care about.
- *Half of this state's health spending is wasted* on administration, unnecessary or incompetent care, unnecessarily high prices, and theft. So the challenge is to spend more carefully.
- Even those who don't think single payer is a good idea now—or who believe more money for business as usual is feasible—must anticipate the unexpected. **Legislators, especially, have a fiduciary obligation to consider "what if."** What if health care here melts down? How badly would patients, caregivers, and the economy be hurt? How can we avert this?
- More money for business as usual is implausible. Consider: U.S. health spending was below education and defense spending in 1970. This year, health spending will be over four times reported defense spending and more than double education spending.
- *Without real cost control, medical meltdown looms—one main reason to back single payer*.

THE SOLUTIONS: Pooling revenue, containing cost, covering everyone, paying all needed caregivers fairly, and encouraging/obliging doctors to spend money carefully

Pool all health care revenue in Massachusetts in either of two ways.

- Combine all of today's public streams of money and replace private health insurance and today's out-of-pocket spending with new tax money.
- Combine all today's public funds and private health insurance premiums, but replace only out-of-pocket spending with new taxes—a far smaller new tax. This means freezing current insurance payments, preventing further price hikes for all who now buy insurance.

Pooling revenue makes it much easier to contain cost.

- Administrative waste is cut by using one method of paying doctors, one for hospitals, and the like. This simplification will yield very substantial savings, we have estimated.
- *Consolidating health care revenue also facilitates squeezing out clinical waste and theft*. If the dollars are known to be finite, the link between waste or theft and harm to patients is clearer. This motivates doctors and whistle-blowers to identify inappropriately used funds.
- When doctors work under an overall budget, the dollars saved by eliminating excessive or low-value care can help slow spending increases and help previously under-served patients.
- *Consolidated financing is vital to cutting administrative costs—which is vital to financing comprehensive health care for all. But it alone cannot ensure affordable medical security for years ahead, as health costs rise with population aging and medical advances.*

Cover everyone, pay needed caregivers fairly, and encourage/oblige doctors to spend carefully.

- Everyone who lives or works in Massachusetts deserves medical security. This requires deciding what that means and then shaping health delivery and financing to reach this goal.
- *Single payer not only brings immediate coverage for all—it facilitates responsible and effective cost control*. Instead of rationing care by ability to pay, careful spending is required.
- Caregivers must be paid in financially neutral ways that encourage and require them to spend money carefully, to get as much health care as possible to the people who need it.